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MEMORANDUM FOR: THE RECORD

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This project was prepared by []
[] at the request of Mr. Allen
J. Lenz, Director, Office of East-West
Trade Analysis, Bureau of East-West
Trade, U.S. Department of Commerce.
The information is to be included in a
briefing book for President Ford's up-
coming trip to Paris. An advance copy
was sent to Mr. Lenz on 16 October.

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17 October 1975
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FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

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Eastern Europe: The Debt Burden

1. Eastern Europe continues to attract Western credits despite greatly increased debt burdens in recent years. None of the countries is known to have defaulted on repayments. The governments not only stand behind the borrowing, but also are able to control both the volume of imports and of indebtedness. Furthermore, economic policies and the economies themselves have shown stability in the face of the strained world market situation. The USSR in the past has been willing to help the countries avoid default (Bulgaria in 1969) and to tide them over temporary emergencies (Poland in 1971). Some debt relief has at times come from the West. After the 1970 floods, for example, Romania was granted some debt rescheduling from West Germany and in 1975 again used flood damage as an excuse to request rescheduling from West Germany and Italy. The Poles have been able to borrow heavily in short-term markets in recent years to help meet longer-term debt obligations.

2. East European hard currency indebtedness has soared in recent years -- from an estimated \$5.5 billion at the end of 1970 to roughly \$15.5 billion at the end of 1974. Poland has incurred the largest debt (\$4.9 billion) followed by Romania (\$2.9 billion). Borrowing/continued heavy so far in 1975 as trade deficits increased due to continued large purchases of machinery and equipment and difficulties in selling

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in recession-hit Western markets. Net imports of Western petroleum have accounted for only a small part of the large deficits as Eastern Europe obtains the bulk of its oil from the USSR.

3. Eastern Europe has considerable Western credits at its disposal. Known medium- and long-term credits extended from July 1974 to September 1975 total \$6.4 billion. Poland has been by far the largest borrower, accounting for two-thirds of the total. Romania and Bulgaria have also increased their borrowing sharply, as have East Germany and Hungary -- traditionally cautious in their approach to the West. Czechoslovakia alone appears reluctant to increase its borrowing significantly.

4. West European governments have guaranteed large loans in an effort to enlarge their share of the East European market. The largest -- a \$1.7 billion French credit -- was extended to Poland in June 1975. The United Kingdom, through its Export Credit Guarantee Department, has backed more than \$400 million in loans to Eastern Europe in the past 15 months, mostly to Poland. East European governments also are borrowing heavily on the Eurocurrency market -- net liabilities exceed \$7 billion. Kuwait and Iran have become active lenders to Eastern Europe in the past year, having extended a total of at least \$700 million to Romania, Bulgaria, Hungary, and Poland. Romania, the only IMF member in Eastern Europe, has so far received \$290 million in World Bank Credits.

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5. The extent to which Eastern Europe can expand its exports to the West and find new sources of long-term financing will determine its ability to continue to increase imports from the West. Some of the best hard-currency earners -- such as processed foods -- may have to be partly redirected to the Soviet market to offset the higher prices imposed by the USSR for its oil and raw materials. In any case, East European leaders are concerned about the burgeoning hard currency indebtedness and will likely have to slow down the growth of imports and borrowing from the West.

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